

CALIFORNIA ENERGY COMMISSION

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January 6, 2003

Mr. S. David Freeman, Chairman
Consumer Power and Conservation
Financing Authority
901 P Street, Suite 142A
Sacramento, California 95814

Dear Chairman Freeman:

The California Energy Commission is pleased to respond to your request for our support of the principles and conclusions included in the draft rule establishing Target Reserve Levels for your Investment Plan.¹

The Energy Commission concurs that load serving entities are responsible, under the guidance of their appropriate regulatory authority, to procure power and reserve capacity sufficient to meet their needs to satisfy reliability, minimize costs, and reflect a level of risk tolerance acceptable to their customers and regulators. We also concur that the primary purpose of these reserves is to ensure system reliability.

The level of planning reserves must be sufficient to assure that WECC minimum operating requirements are met. Levels will differ for individual load serving entities based on their load patterns, transmission constraints, largest contingencies, actual resource availability, fuel diversity, location, deliverability, and preferred resource mix. Determining a reserve level needs to be based on an integrated resource plan. Current information suggests that California load serving entities will need planning reserves between 15 percent and 18 percent of an average year's load.

Reserve requirements for each load serving entity should continue to be determined based on dependable capacity from generation and demand resources using a methodology that assesses various contingencies. Like all generation, reserves will come from a mix of sources such as individual power facilities, system sales, and the availability of price-induced sources such as merchant generators and demand response. As any operating day approaches, the resources intended to meet the electricity needs on that day will have to be more specifically identified and communicated to the control area operator.

¹ Our comments are based on the "Statement of Supporting Principals and Conclusions", pages 10-17 in the November 15, 2003 version as edited by CPUC staff in early December.

Chairman Freeman

January 6, 2003

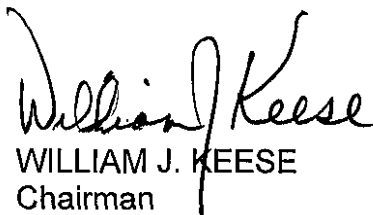
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The Energy Commission supports the principal that reserve levels should be determined by California load serving entities and their regulators. We note that the Public Utilities Commission will be considering appropriate reserve margins for investor-owned utilities in its long-term procurement rule-making, currently scheduled to be completed in November 2003. Further, we recognize that reliability exists only in the context of an integrated Western Interconnection, and that achieving it in a cost-effective manner requires further coordination with neighboring jurisdictions. The Energy Commission will be evaluating statewide and regional risks and resource adequacy in its Integrated Energy Policy Report, also scheduled for completion in November 2003.

The Energy Commission recognizes the contribution to increased awareness about reserves that the Power Authority rulemaking has accomplished. The numerous principles and conclusions in the final draft rule create opportunities for further discussion, evaluation and refinement in forums with implementation authority.

Thank you for this opportunity to participate in the California Power Authority's rule making.

Sincerely,



WILLIAM J. KEESE
Chairman